

*A New Medicare:
What Does It Mean for the States?*

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Medicare Modernization Act of 2003

- H.R. 1 - The Medicare Prescription Drug and Modernization Act is the most significant reform of Medicare since its creation.

- I will discuss the following major provisions:
 - ✓ Creation of a Voluntary Medicare Rx Program
 - ✓ Implementation of an Interim Rx Discount Card
 - ✓ Reform of standardized Medigap policies
 - ✓ Changes to Medicare+Choice, now MedicareAdvantage
 - ✓ Expansion of MSAs, now Health Savings Accounts

Voluntary Medicare Rx Program - Overview

- Eligible Medicare beneficiaries may choose to receive Rx coverage through a Prescription Drug Plan (PDP) or a Medicare Advantage (formerly M+C) plan with qualified coverage.
- Retiree plans with actuarially equivalent coverage also receive a federal subsidy.
- Enrollment will begin November 2005 and the program will begin January 1, 2006.
- Penalty for late enrollment if not covered by eligible plan.
- At least two private coverage options (at least one PDP) is envisioned for every area of the country.

Voluntary Medicare Rx Program – Oversight of Private Plans

- PDPs and Medicare Advantage plans will be approved by HHS.
- PDPs must be licensed in the state (exempt from premium taxes) unless they receive a waiver.
 - ✓ Waiver granted if state licensing process discriminates against PDPs or if the state does not have a licensing process in effect for PDP sponsors
 - ✓ PDPs with waiver are approved by HHS. Solvency standards for non-licensed PDPs to be set by Secretary (in consultation with NAIC.)
- PDP grievance, internal reviews and external appeals procedures tied to MA rules.

Voluntary Medicare Rx Program – Standard Benefit

- \$250 deductible.
- 25% coinsurance on allowable Rx costs up to \$2,250 per year.
- No coverage of allowable Rx costs after initial coverage limit of \$2,250 per year.
- 5% coinsurance on allowable Rx costs after out-of-pocket costs exceed \$3,600 per year.
- Only PDPs may offer added coverage and third-party payments do not count toward out-of-pocket limit – unless paid by state Rx assistance or federal programs.
- PDPs may offer “actuarially equivalent” coverage.

Voluntary Medicare Rx Program – Premium/Subsidies

- Anticipate premium in 2006 = \$35 per month.
- General direct and indirect subsidies = 74.5%.
- Sliding scale subsidies to cover premiums, deductible and all but minimum copay for beneficiaries with incomes up to 150% of the federal poverty level.
- Rx coverage for Medicare/Medicaid eligibles shifted to Medicare, with costs paid by the states. State contributions reduced to 75% of costs over 10 years.
- Employee retiree plans providing “actuarially equivalent” coverage receive 28% limited subsidy.

Transitional Rx Discount Card

- Medicare beneficiaries may access at least two Rx discount cards.
- Program begins June 2004.
- Approved discount card sponsors may charge enrollment fee of up to \$30 per year.
- Enrollment fee for those below 135% of the federal poverty line paid by the federal government.
- Low income also receive \$600 per year, with a 5% (below 100% FPL) or 10% (101-135% FPL) coinsurance requirement.
- Discount program sunsets January 1, 2006.

Medigap Reforms – Overview

- Medigap plans with Rx coverage may not be sold, issued or renewed to a beneficiary enrolled in the federal Rx program.
- Medigap plans with Rx coverage may be renewed if Rx coverage is eliminated once the person enrolls in the federal Rx program.
- A beneficiary with Medigap Rx coverage who enrolls in the federal Rx program may choose to:
 - ✓ Remain in the current plan with Rx coverage eliminated; or
 - ✓ Switch to Medigap plans A, B, C or F from current carrier
- A beneficiary with Medigap Rx coverage may keep that coverage if he/she does not enroll in the federal Rx program.
- Medigap carriers must notify beneficiaries of their options 60 days before initial enrollment period (Nov. 2005).

Medigap Reforms – NAIC Responsibilities

- Amend H, I, and J plans to strip out Rx coverage.
- Add two new Medigap plans that include specified cost-sharing and out-of-pocket limits.
- Make other modifications to Medigap policies necessitated by the Medicare Rx Act.
- Invitation in the Conference Report to look at adding cost-sharing in all plans.
- Provide input to HHS on the Medigap beneficiary notification materials.

Medigap Reforms – NAIC Process

- Workplan adopted; Statutory Advisory Group appointed.
- First draft distributed to interested parties and posted on website. Comments due March 3rd.
- Seven hours of open discussion planned for annual meeting in New York.
- Complete process by September 2004 so states can implement, plans can file revised policies for state approval, and beneficiaries can be notified.

MedicareAdvantage – New Name, Higher Payments

- Payment formula changed to include 100% of fee-for-service as calculation option.
- Beginning in 2006, plans will bid against weighted average, with beneficiaries receiving savings for choosing lower-cost plans, higher premiums for higher-cost plans.
- In 2010, plans in 6 metropolitan areas will compete directly with Medicare fee-for-service in pilot program.
- All state laws (except licensing and solvency) are explicitly superseded for MedicareAdvantage plans.

Health Savings Accounts – Renamed and Expanded

- Individuals may deduct up to \$2,250 per year in contributions to a Health Savings Account. A family up to \$4,500 per year.
- To be eligible for the deduction, the individual or family must have a qualified high deductible plan that has a deductible of not less than \$1,000 per year (\$2,000 for family) and an out-of-pocket limit of not more than \$5,000 per year (\$10,000 for family).
- Interest and disbursements from the savings account for qualified health expenses are not taxable.
- President Bush has proposed also making the premiums deductible.